

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AEC-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-04 FPC-01 H-01 INR-05 INT-05 L-01

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SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01 PA-01 PRS-01

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 5864

INFO AMEMBASSY MOSCOW

AMCONSUL DUSSELDORF

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L BONN 16740

E.O. 11652: GDS

TAGS: ENRG, GW, UR

SUBJECT: GERMAN/SOVIET NATURAL GAS PROJECT

REF: BONN 14189

1. ACCORDING TO AN ECONOMICS MINISTRY OFFICIAL THE THIRD SOVIET/GERMAN LONG TERM NATURAL GAS CONTRACT IS TO BE SIGNED IN MOSCOW ON OCT 28 (NOT COINCIDENTALLY THE DAY OF CHANCELLOR SCHMIDT'S ARRIVAL). CONTRACTS ARE TO BE SIGNED BY RUHRGAS, MANNESMANN AND THE DEUTSCHE BANK.

2. THE RUHRGAS CONTRACT PROVIDES FOR SOVIET DELIVERY OF AN ADDITIONAL 2.5-3 BILLION CUBIC METERS OF NATURAL GAS ANNUALLY BRINGING THE TOTAL UNDER THE THREE CONTRACTS TO A LEVEL OF AROUND 10 BILLION CUBIC METERS A YEAR BY 1982. THE FIRST TWO CONTRACTS SIGNED IN 1970 AND
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1972 CONTAINED A PRICE OF AROUND 60 CENTS PER MILLION

BTU. THIS PRICE WAS FIXED ALTHOUGH THE CONTRACT CONTAINED A RENEGOTIATION PROVISION IN THE CASE OF MAJOR NEW DEVELOPMENTS IN THE WORLD ENERGY MARKET. AS A RESULT OF THE ENERGY CRISIS THE PRICE ON THESE TWO CONTRACTS HAS BEEN RENEGOTIATED AND THE GAS UNDER ALL THREE CONTRACTS INCLUDING THE NEW ONE NOW WILL BE DELIVERED AT A PRICE OF AROUND \$1.20 PER MILLION BTU AT THE GERMAN BORDER. IN CONTRAST WITH THE EARLIER CONTRACTS THIS PRICE IS ADJUSTABLE ACCORDING TO FLUCTUATIONS IN THE PRICE OF HEAVY HEATING OIL. THE BASE PRICE FOR PURPOSES OF CALCULATION WILL BE A 6-9 MONTH AVERAGE OF HEAVY HEATING OIL PRICES ON THE GERMAN MARKET.

3. AS IN THE FIRST TWO CONTRACTS MANNESMANN WILL DELIVER DM 1.5 TO 1.8 BILLION OF PIPE. THE SOVIETS WILL PAY AN INTEREST RATE OF SLIGHTLY UNDER 7 PERCENT ON THE FINANCING OF THE STEEL PIPE. THIS RATE IS HIGHER THAN THE RATE PAID UNDER THE FIRST TWO CONTRACTS. DEUTSCHE BANK HOWEVER WILL RECEIVE THE MARKET INTEREST RATE FOR ITS FUNDS. WHEREAS IN THE FIRST TWO CONTRACTS MANNESMANN HAD MADE UP THE DIFFERENCE IN INTEREST RATES ITSELF, IN THIS CONTRACT THE DIFFERENCE WILL BE MADE UP BY MANNESMANN AND RUHRGAS TOGETHER DUE TO CHANGED ECONOMIC CIRCUMSTANCES (STEEL BOOM, GAS SHORTAGE). OUR SOURCE EMPHASIZED THAT THE GERMAN GOVERNMENT IS IN NO WAY SUBSIDIZING THIS CREDIT.
HILLENBRAND

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